



*Office of Inspector General
Export-Import Bank
of the United States*

SEMIANNUAL REPORT TO CONGRESS

April 1, 2017 to September 30, 2017

EXPORT-IMPORT BANK OF THE UNITED STATES (EXIM Bank, EXIM, or the Bank) is the official export credit agency of the United States (U.S.). EXIM Bank supports the financing of U.S. goods and services in international markets, turning export opportunities into actual sales that help U.S. companies of all sizes to create and maintain jobs in the United States. The Bank assumes the credit and country risks that the private sector is unable or unwilling to accept. EXIM Bank also helps U.S. exporters remain competitive by countering the export financing provided by foreign governments on behalf of foreign companies. Approximately 90 percent of the Bank's transactions were made available for the direct benefit of U.S. small businesses in recent years.

More information about EXIM Bank is at www.exim.gov.

THE OFFICE OF INSPECTOR GENERAL (OIG), an independent office within EXIM Bank, was statutorily created in 2002 and organized in 2007. The mission of EXIM OIG is to conduct and supervise audits, investigations, inspections, and evaluations related to agency programs and operations; provide leadership and coordination as well as recommend policies that will promote economy, efficiency, and effectiveness in such programs and operations; and prevent and detect fraud, waste, abuse, and mismanagement.

The OIG is dedicated to acting as an agent of positive change to help EXIM Bank improve its efficiency and effectiveness. It keeps EXIM Bank's Chairman and President and Congress fully informed about problems and deficiencies along with any positive developments relating to EXIM Bank administration and operations.

More information about the OIG including reports of audits, inspections, and evaluations is at www.exim.gov/about/oig. Information about inspectors general in the U.S. government can be found at www.ignet.gov and www.oversight.gov.

From the Inspector General

In the second half of fiscal year (FY) 2017, the EXIM Bank Office of Inspector General continued its work in advising EXIM Bank management and the Congress on recommendations for improving Bank operations and detecting, preventing, and prosecuting fraud.

This semiannual report includes the OIG's assessment of the major management challenges facing the agency, which we are required to publish annually. In our semiannual report dated March 31, 2017, we reported that EXIM's charter was renewed in December 2015. However, since then EXIM has lacked a quorum on its Board of Directors, resulting in the Bank being unable to approve new medium and long-term transactions over \$10 million. At the beginning of FY 2018, EXIM Bank still lacks the ability to carry out the mission authorized by its charter because all five seats on the Board of Directors are currently vacant, with the seats of the Chairman & President and Vice-Chairman & First Vice President being filled by acting officials pursuant to the Vacancies Act. As of this writing, the President has nominated individuals for the five board seats and their nominations are pending confirmation by the Senate. Filling these key positions is essential to resolving uncertainty about the future of EXIM and carrying out the governance structure specified in EXIM Bank's charter.

During this semiannual period, the OIG published three evaluation reports, one audit report and one risk assessment. These included evaluations of EXIM's compliance with improper payments laws, the Transportation Portfolio Management Division's risk rating process, and EXIM's local cost policy and procedures; an audit of EXIM's disbursement processes; and a risk assessment of EXIM's purchase card program. In addition, our office continued its focus on investigating fraud related to EXIM Bank transactions. Working with the Department of Justice, we obtained a charge of "false statement to a Bank" against an individual who willfully overstated assets in relation to a defaulted line of credit. We also obtained a civil complaint against a medical equipment supplier who falsely certified that his company made five shipments containing \$4.9 million worth of equipment. The investigation revealed that at the time of the certification, the company had made only one shipment containing a fraction of the equipment. The Office of Investigations also continued fraud prevention efforts by conducting outreach and training programs. Finally, the Office of Audits completed a peer review of the audit function of the Government Publishing Office OIG.

I am also pleased to report that the Office of Audits and Office of Investigations both passed their peer reviews during this semiannual period with no deficiencies and were found to be in full compliance with required standards. None of these accomplishments would be possible without the hard work, professionalism, and dedication of our excellent staff. The goal of our office is to continue to provide timely, accurate, and credible information to aid Bank officials and Congress in shaping the future of EXIM Bank.

Terry L. Settle

Acting Inspector General

Highlights

The **Office of Audits** (OA) completed one evaluation, one risk assessment and one audit:

Report on EXIM Bank's Compliance with the Improper Payments Laws for Fiscal Year 2016 Reporting

(OIG-EV-17-04, May 11, 2017)

We conducted this evaluation to determine whether EXIM was in compliance with the reporting requirements of the improper payments laws for fiscal year 2016 reporting and to assess EXIM Bank's implementation of prior year audit recommendations. We determined that EXIM fully complied with all reporting requirements of the improper payments laws as stipulated in Office of Management and Budget (OMB) Circular A-123. We also determined the Bank implemented all four prior year audit recommendations issued in the OIG's Independent Auditor's Report on EXIM Bank's Compliance with the Improper Payments Laws for FY 2015 Reporting, issued May 13, 2016 (OIG-AR-16-06). The report contained no recommendations.

Risk Assessment of the Export-Import Bank's Purchase Card Program

(September 29, 2017)

In accordance with the Government Charge Card Abuse Prevention Act of 2012, we conducted a risk assessment to identify and analyze the risks of illegal, improper, or erroneous use of EXIM Bank's purchase cards in order to determine the scope, frequency and number of periodic audits the OIG will conduct. Our risk assessment determined that EXIM Bank's risk of illegal, improper, or erroneous use within the purchase card program was low. Overall, we determined that the purchase card expenditures were immaterial in comparison to EXIM Bank's total FY 2016 administrative expenditures. Additionally, we found the policies, procedures and internal controls for the Purchase Card Program were generally sufficient. We also noted that EXIM Bank timely submitted its Charge Card Management Plan to OMB by the January 31, 2017 deadline. Accordingly, we do not intend to conduct an audit specifically of the Purchase Card Program. However, we will base future Purchase Card Program audits on the results of our annual risk assessments.

Audit of the Export-Import Bank's Disbursement Processes

(OIG-AR-17-05, September 29, 2017)

Credit Administration, a unit of Operations and Management Reporting at EXIM Bank, is responsible for administering disbursement procedures for direct loans and medium and long-term guarantees. From October 1, 2014 to June 30, 2016, EXIM Bank disbursed \$11.8 billion, \$161 million, and \$5.8 billion for long-term guarantees, medium-term guarantees, and long-term direct loans, respectively. We conducted this audit to determine if loans and guarantees were disbursed in accordance with EXIM Bank's policies and procedures and for the correct amount and purpose. While we found that EXIM Bank's long-term direct loans and medium and long-term loan guarantees were generally disbursed in accordance with the Bank's guidelines and for the correct amounts and purposes, we determined that the

underlying documentation and internal controls for disbursements should be improved by (1) developing, documenting and enhancing a policy and procedures; (2) implementing additional internal controls for procedures that rely on third-party reviews or self-certifications; and (3) implementing training and enhancing measurement and monitoring procedures for EXIM's disbursement processes. The audit report included nine recommendations and management concurred with the recommendations.

The **Office of Inspections and Evaluations** (OIE) completed two evaluations:

Report on Transportation Portfolio Management Division's Risk Rating Process
(OIG-EV-17-05, August 30, 2017)

EXIM Bank's Transportation Portfolio Management Division (TPMD) is responsible for the management of transactions originated by the Transportation Division. TPMD's portfolio consists of commercial and business aircraft, helicopters, locomotives, and transportation spare parts. The total TPMD portfolio exposure amounted to \$39.3 billion, or 49.5 percent of the Bank's total exposure at March 31, 2017. Approximately nine percent of the portfolio exposure is sovereign while the remaining 91 percent is non-sovereign.

OIG reviewed TPMD's risk rating policies and procedures to ascertain the level of credit analysis, methodology employed, and timeliness of the Budget Cost Level (BCL) risk rating review process for post-operative transactions and to assess the Bank's adherence to its policies and procedures, governmental guidelines, and leading practices. Overall, we found that TPMD is generally adhering to the risk review procedures outlined in current policy guidelines. However, certain areas need to be further refined to ensure risk rating outcomes are accurate, replicable and align with leading practices. The OIG made three recommendations to enhance the Bank's credit review process and management agreed with all three.

Report on EXIM Bank's Local Cost Policy and Procedures
(OIG-EV-17-06, September 29, 2017)

EXIM Bank's local cost policy provides financing for locally originated and/or manufactured goods and services that are required to build efficiently the end-product of a U.S. export. This support is in addition to the maximum support of 85 percent of the U.S. net contract price. As of July 31, 2017, the Bank's portfolio included 127 transactions with local cost components. We reviewed a judgmental sample of seven transactions with local cost components and 14 related disbursements. Our evaluation found that EXIM was generally compliant in its financing of local costs for the transactions reviewed. We noted no exceptions in our testing of two medium-term transactions. However, our review of five long-term transactions identified a sufficient number of inconsistencies to indicate weaknesses in internal controls relating to local costs. Our report made six recommendations to enhance the Bank's current procedures and strengthen internal controls. EXIM Bank management agreed with all six recommendations.

The **Office of Investigations** (OI) concluded the following actions:

Criminal and Civil Complaints

OI continued its focus on investigating fraud related to EXIM Bank transactions. Working with the Department of Justice, we obtained a charge of “false statement to a Bank” against an individual who willfully and falsely overstated assets in relation to a line of credit which subsequently defaulted.

In addition, we obtained a civil complaint against an El Paso, TX medical equipment supplier. The owner fraudulently certified that his company made five shipments containing \$4.9 million worth of equipment. The investigation revealed that at the time, the company had made only one shipment containing a fraction of the equipment.

OI also continued fraud prevention efforts by conducting outreach and training programs.

Suspension and Debarment Initiative

The OIG continues to work with EXIM management to implement a more robust Suspension and Debarment program at EXIM Bank, which serves as a critical tool to prevent waste and fraud and protect the business interests of the U.S. This initiative includes dialogue between OIG and EXIM Bank management officials to determine potential obstacles to taking suspension and debarment action, and plans to overcome those obstacles. Notable activity during this semiannual reporting period includes a three year suspension of a Miami Florida Company, Global Export Machinery, Inc. and its principals, Guillermo Sanchez, Isabel Sanchez and Gustavo Giral.

EXIM Bank Management Challenges

The Reports Consolidation Act of 2000 requires an annual summary of what the Inspector General considers to be the most serious management and performance challenges facing the agency and a brief assessment of the agency's progress in addressing those challenges. Through our audits, inspections, evaluations, and investigations, we work with Bank management in recommending actions that best address those challenges. We have identified the following topics as the top management challenges facing the Bank at the beginning of FY 2018.

Managing Uncertainty About EXIM Bank's Authority and Future Direction

In FYs 2016 and 2017, we reported that the top management challenges facing EXIM Bank were managing lapses in authority to incur new obligations, first due to the expiration of the Bank's charter between July and December 2015 and later by the absence of a quorum on the Board of Directors. Due to these two lapses, EXIM Bank was unable to commit to any new transactions in the latter half of 2015, and since December 2015 has been unable to approve any medium or long-term transactions over \$10 million. Managing the effects of the continuing lapse in authority and uncertainty about the future of EXIM Bank continues to be the top management challenge facing the Bank.

At the beginning of FY 2018, EXIM Bank still lacks the ability to carry out the mission authorized by its charter, due to continuing vacancies on the Board of Directors, which have not been filled by appointments by the President and confirmation by the Senate. All five seats on the Board of Directors are currently vacant, with the seats of the Chairman & President and Vice-Chairman & First Vice President being filled by acting officials pursuant to the Vacancies Act. As of this writing, the President has nominated individuals for all five board seats and their nominations are pending confirmation by the Senate.

As a result of the lapses in authorization, EXIM Bank's levels of business activity have been drastically lower than in previous years, with new authorizations slipping from \$20.5 billion in FY 2014, the last year the Bank was fully authorized, to \$12.4 billion in FY 2015, \$5.0 billion in FY 2016, and approximately \$3.4 billion in FY 2017. Since July 2015, EXIM Bank has been entirely absent from the marketplace in several sectors where it previously provided extensive support for U.S. exports, particularly the financing of wide-body aircraft and structured and project finance infrastructure transactions. The uncertainty about if and when the Bank will be able to re-enter the marketplace adds difficulty to EXIM Bank customer relations and outreach activities. As the lapse in authority continues, EXIM Bank is less likely to be viewed as a credible and reliable source of funding. Management must balance its preparations for the restoration of the Bank to its full authority while ensuring the proper allocation of resources to the current ongoing functions of the Bank such as the short-term and working capital programs and the monitoring of operative transactions.

We have consistently identified EXIM Bank's management of human capital as a major management challenge and the uncertainty about the Bank's future has added complications. During the lapse in authorization, the Bank instituted a hiring freeze. After authorization was reinstated, EXIM Bank began recruiting for vacant positions, but managers reported that top

candidates turned down employment offers, citing uncertainty over the future of the Bank. EXIM Bank managers also expressed concern that several key senior officials with extensive institutional memory are eligible to retire. Nevertheless, given looming budget constraints, the Bank recently implemented another hiring freeze. Ensuring the appropriate resources are available for transaction due diligence and monitoring as well as the necessary administrative support will be a significant challenge for management if and when the full authority of the Bank is restored.

Implementing the 2015 Reauthorization

In December 2015, Congress passed and the President signed a bill that extended the authorization of EXIM Bank to September 30, 2019, and made several reforms to the Bank's charter. Major requirements of the 2015 reauthorization law included appointment of a Chief Risk Officer (CRO) and establishment of a Risk Management Committee (RMC), and appointment of a Chief Ethics Officer and establishment of a new ethics office; an increase in the small business financing target to 25 percent; an increase in loss reserve to be not less than five percent of disbursed and outstanding loans, guarantees, and insurance; and establishment of a pilot program for risk sharing.

A key mandate from the 2015 reauthorization is improving EXIM Bank's enterprise risk management structure. The law established a CRO, who is directed to oversee all issues relating to risk within the Bank and report to the President of the Bank. The law also established the RMC, comprised of non-management members of the Board of Directors, with the President and First Vice President of the Bank serving as ex officio members. The RMC replaced EXIM Bank's Audit Committee and is directed to (i) provide oversight to periodic stress testing of the entire Bank portfolio and the monitoring of industry, geographic, and obligor exposure levels; and (ii) review all required reports on the default rate of the Bank before submission to Congress. The risk-related reforms in the 2015 reauthorization are consistent with risk management recommendations from previous OIG reports, which advised EXIM Bank to adopt a variety of governance reforms to better evaluate risks of the entire Bank and its portfolio as a whole, in addition to transaction-level risk analysis. The reforms in the reauthorization are also consistent with new guidance issued by OMB for all federal agencies on internal controls and enterprise risk management.

EXIM Bank has continued to implement the requirements of the 2015 reauthorization by identifying the discrete requirements and forming working groups to implement each one. While progress continues to be made, some of these initiatives are complex and will require sustained management attention to fully implement. The lapse in Board quorum also prevents EXIM Bank from fully implementing the initiatives that require Board action, including confirming the appointment of the CRO and Chief Ethics Officer as required by the new law. The Bank has selected these officials and they have been working on their assignments; however, their official appointment to these positions has yet to be finalized pending a quorum on the Board as required. Similarly, EXIM Bank management has initiated meetings of the RMC, but the committee cannot fulfill the governance role that Congress envisioned until non-management directors have been confirmed by the Senate.

Management also faces challenges in implementing some requirements of the 2015 reauthorization law that are not necessarily in harmony with each other. For example, the law places an emphasis on reducing risk at EXIM Bank with provisions that reduce the portfolio cap if the default rate exceeds two percent. At the same time, the law increases the target for lending to small businesses and encourages the Bank to expand the medium-term lending program, both of which have historically been higher risk and have produced higher default rates than other EXIM Bank lines of business. Implementing all of the requirements of the 2015 reauthorization law will require management to carefully plan and structure new programs, policies, and procedures since many of the new requirements have interrelated effects. Management has been able to meet the mandated target for lending to small businesses during the lapses in authority since it has been unable to approve medium or long-term transactions over \$10 million. However, it will be a challenge for management to meet this target if the Bank's full authorization is restored.

Internal Controls

We continue to find opportunities for management to improve internal controls in EXIM Bank's programs and operations. Recent audits and evaluations found that the Bank's policies, procedures and guidelines related to its credit risk review processes, overall loan disbursement processes, and local costs can be strengthened. Weaknesses in these policies, procedures and guidelines affect the replicability of risk rating profiles, the sufficiency of documentation for disbursements and local costs, and the Bank's reliance on third-party reviews and self-certifications.

Administrative Functions

EXIM Bank's core banking functions are supported by an administrative infrastructure that presents its own management challenges. The Bank has made progress toward addressing some challenges presented last year by hiring a Chief of Contracting Operations to replace the vacant Chief Acquisition Officer position and hiring a Chief Human Capital Officer. However, there are still challenges in the operations of the contracting and human capital management functions. For example, EXIM Bank still lacks a comprehensive set of written policies and procedures for its contracting function. In addition, several different Bank executives and division heads independently voiced their dissatisfaction with the support provided to their functional areas by the contracting and human capital management offices. EXIM Bank leadership should continue to advance the contracting and human capital functions by improving the service and support provided to the Bank's operating offices.

We have previously reported information technology management at the Bank as a major management challenge. In the past few years, EXIM Bank has installed experienced senior IT leadership, has deployed new systems, and has improved the Bank's IT infrastructure. EXIM managers who rely upon IT systems report that significant progress has been made and are encouraged by the plans for new systems and more functionality. Management's challenge is to develop, implement, and maintain a mature information security program given its limited budgetary resources.

Office of Audits

The **Office of Audits** (OA) conducts and oversees independent and objective audits of EXIM Bank's programs and operations. All OIG audits are performed in accordance with generally accepted government auditing standards promulgated by the Comptroller General of the United States. OA staff may also perform evaluations, conduct research projects; provide advisory or consulting services to EXIM Bank management; or provide information, comments and other services to outside parties. Furthermore, OA refers irregularities and other suspicious conduct detected during audits to the Office of Investigations for investigative consideration.

During this semiannual reporting period, OA completed one evaluation, one risk assessment and one audit:

- Report on EXIM Bank's compliance with the Improper Payment Laws for Fiscal Year 2016 Reporting
- Risk Assessment of Export-Import Bank's Purchase Card Program
- Audit of the Export-Import Bank's Disbursement Processes

At the end of the reporting period, OA had four audits in progress:

- Audit of EXIM Bank's Fiscal Year 2017 Financial Statements
- Audit of EXIM Bank's DATA Act Submission
- Independent Audit of Export-Import Bank's Information Security Program Effectiveness for Fiscal Year 2017
- Audit of EXIM Bank's Early Problem Credits

Reports Issued

Report on EXIM Bank's Compliance with the Improper Payments Laws for Fiscal Year 2016 Reporting

(OIG-EV-17-04, May 11, 2017)

www.exim.gov/sites/default/files/oig/reports/Evaluation%20of%20the%20Export-Import%20Bank%E2%80%99s%20Compliance%20with%20the%20Improper%20Payments%20Laws%20for%20Fiscal%20Year%202016%20Reporting.pdf

Improper payments are payments made in the wrong amount, to the wrong entity, or for the wrong reason. They can result from processing errors, a lack of information, or fraud. In accordance with the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), each agency's Inspector General is required to perform an annual review of their agency's compliance with improper payments reporting requirements. We conducted this evaluation to (1) determine whether the Export-

Import Bank was in compliance with the reporting requirements of the improper payments laws for fiscal year 2016 reporting and (2) assess EXIM Bank’s implementation of prior year audit recommendations.

We determined that EXIM Bank fully complied with all reporting requirements of the improper payments laws as stipulated in OMB Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments.

We also determined that the Bank implemented all four prior year audit recommendations issued in the OIG’s Independent Auditor’s Report on EXIM Bank’s Compliance with the Improper Payments Laws for FY 2015 Reporting.¹

Risk Assessment of the Export-Import Bank’s Purchase Card Program

(September 29, 2017)

www.exim.gov/sites/default/files/oig/reports/Final%20-%20FY%2016%20Purchase%20Card%20Memorandum.pdf

In accordance with the Government Charge Card Abuse Prevention Act of 2012, we conducted a risk assessment to identify and analyze the risks of illegal, improper, or erroneous use of EXIM Bank’s purchase cards in order to determine the scope, frequency and number of periodic audits the OIG will conduct. Our risk assessment determined that EXIM Bank’s risk of illegal, improper, or erroneous use within the purchase card program was low. Overall, we determined that the purchase card expenditures were immaterial in comparison to EXIM Bank’s total FY 2016 administrative expenditures. Additionally, we found the policies, procedures and internal controls for the Purchase Card Program were generally sufficient. We also noted that EXIM Bank timely submitted its Charge Card Management Plan to OMB by the January 31, 2017 deadline. Accordingly, we do not intend to conduct an audit specifically of the Purchase Card Program. However, we will base future Purchase Card Program audits on the results of our annual risk assessments.

Audit of the Export Import Bank’s Disbursement Processes

(OIG-AR-17-05, September 29, 2017)

www.exim.gov/sites/default/files/oig/audit/OIG-AR-17-05%20-%20Audit%20of%20EXIM%27s%20Disbursement%20Processes.pdf

Credit Administration, a unit of Operations and Management Reporting at EXIM Bank, is responsible for administering disbursement procedures for direct loans and medium and long-term guarantees. From October 1, 2014 to June 30, 2016, EXIM Bank disbursed \$11.8 billion,

¹ See EXIM Bank OIG’s *Independent Auditor’s Report on the Export-Import Bank’s Compliance with the Improper Payments Laws for FY 2015 Reporting* (OIG-AR-16-06, May 13, 2016), available at www.exim.gov/sites/default/files/oig/audit/Ex-Im%20Bank%20Compliance%20with%20Improper%20Payment%20Laws%20for%20FY%202015%20Report%20-%20Final%20Report-signed.pdf.

\$161 million, and \$5.8 billion for long-term guarantees, medium-term guarantees, and long-term direct loans, respectively. We conducted this audit to determine if loans and guarantees were disbursed in accordance with EXIM Bank’s policies and procedures and were disbursed for the correct amount and purpose.

We determined that EXIM Bank’s long-term direct loans and medium and long-term loan guarantees were generally disbursed in accordance with EXIM Bank’s guidelines and for the correct amounts and purposes. However, we determined that the underlying documentation and internal controls for disbursements should be improved by:

- 1) developing, documenting and enhancing a policy and procedures;
- 2) implementing additional internal controls for procedures that rely on third-party reviews or self-certifications; and
- 3) implementing training and enhancing measurement and monitoring procedures for EXIM Bank’s disbursement processes.

Specifically, we found:

- EXIM Bank did not have a formal policy or procedures for its disbursement processes and existing guidelines were not sufficient to address Credit Administration’s reliance on other sources, evidence of payment, and an exception for aircraft transactions. This led to a lack of accountability, inconsistencies in the disbursement processes, and insufficient documentation in the disbursement files.
- Reviews conducted by EXIM Bank’s Credit Review and Compliance division were not sufficient to ensure areas relying on third-party review and self-certifications received proper coverage. This impacted letter of credit disbursements, medium-term guarantee disbursements, and local cost disbursements involving a U.S. supply contract, which rely on exporter certifications and guarantee lender review.
- Training could be formalized and performance measures and indicators for the Bank’s disbursement processes could be enhanced and monitored to help ensure Credit Administration staff remains aware of updates to industry best practices and are able to effectively measure progress toward meeting its goals.

We also found that EXIM Bank was unable to provide validated disbursement data to the OIG in a timely manner. It took nearly six months for the OIG to obtain the requested data. EXIM staff stated they did not understand that the OIG required validated data and thought the OIG wanted raw data. We are reporting this pursuant to Section 5(a)(21)(B) of the Inspector General Act of 1978, as amended, which requires an Inspector General to include in its semiannual reports instances when an agency resists or objects to oversight activities or restricts or significantly delays access to information, including the justification of the establishment for such action.

The report included nine recommendations for EXIM Bank to:

- 1) develop a written policy and procedures for the disbursement processes,
- 2) document the process for coordination between Credit Administration and other divisions within the Bank or other sources,
- 3) enhance guidelines for evidence of payment,
- 4) document the exception and internal controls in place in lieu of obtaining an acquisition list for aircraft transactions,
- 5) develop a risk-based approach for reviews performed by Credit Review and Compliance to ensure adequate coverage of all areas relying on third-party review and self-certification,
- 6) reassess and document the rationale for providing 100 percent guarantees under the medium-term guarantee program given the reliance on the guaranteed lenders to review disbursement documentation,
- 7) formalize training for employees specific to the disbursement process,
- 8) enhance performance measures and indicators for the disbursement process, and
- 9) implement a process for recording and validating disbursement data on at least a quarterly basis.

Management concurred with all nine recommendations.

Ongoing Projects

Audit of EXIM Bank's Fiscal Year 2017 Financial Statements

An independent public accountant, working under OIG supervision, is conducting an audit to issue an opinion on the accuracy and completeness of EXIM Bank's financial statements for FY 2017, which will be issued in the semiannual period ending March 31, 2018. A related management letter report will also be issued in the semiannual reporting period ending March 31, 2018.

Audit of EXIM Bank's DATA Act Submission

The Digital Accountability and Transparency Act of 2014 (DATA Act) requires Inspectors General to review a statistically valid sample of the spending data and report on the completeness, timeliness, quality, and accuracy of the data, as well as on the use of the government-wide data standards. Under a contract overseen by OA, an independent public accounting firm is

conducting this audit. The report will be issued in the semiannual reporting period ending March 31, 2018.

Independent Audit of Export-Import Bank’s Information Security Program Effectiveness for Fiscal Year 2017

Under a contract overseen by OA, an independent public accounting firm is conducting an audit to determine whether EXIM Bank developed adequate and effective information security policies, procedures, and practices in compliance with Federal Information Security Modernization Act (FISMA). The report will be issued in the semiannual reporting period ending March 31, 2018.

Audit of EXIM Bank’s Early Problem Credits

Export-Import Bank’s charter requires a reasonable assurance of repayment for all Bank transactions, which are backed by the full faith and credit of the U.S. government. To comply with this requirement, the Bank must manage a wide variety of risks associated with providing export financing such as credit, political, market, concentration (industry, geographic or obligor), foreign-currency, and operational risks. The Bank utilizes a number of risk-management techniques throughout the different stages of a transaction, which include underwriting, monitoring and restructuring. EXIM Bank’s financing products facilitate support for U.S. exports through four major programs: loan guarantees, direct loans, export credit insurance, and working capital guarantees.

The objectives of this audit are to determine (1) what caused the problems for EXIM Bank’s medium and long-term non-sovereign and corporate credits that experienced early problems, and (2) if these credits were originated, monitored, and serviced in accordance with EXIM Bank’s policies and procedures and Federal guidelines. The report will be issued in the semiannual period ending September 30, 2018.

Office of Inspections and Evaluations

The **Office of Inspections and Evaluations** (OIE) conducts independent inspections and policy evaluations to assess the efficiency and effectiveness of EXIM Bank’s programs, operations, and transactions. All OIE assignments are performed in accordance with the Council of Inspectors General on Integrity and Efficiency guidelines and standards including the 2012 Quality Standards for Inspection and Evaluation. OIE works in tandem with the Office of Audits and the Office of Investigations whenever appropriate. Moreover, OIE refers irregularities and other suspicious conduct detected during its reviews to the Office of Investigations for investigative consideration.

During the second half of FY 2017, OIE completed two evaluations:

- Report on Transportation Portfolio Management Division’s Risk Rating Process
- Report on EXIM Bank’s Local Cost Policy and Procedures

At the end of the reporting period, OIE had one inspection in progress:

- Inspection of Kenya Airways/Tsavo Aircraft Financing LLC

Reports Issued

Report on Transportation Portfolio Management Division’s Risk Rating Process

(OIG-EV-17-05, August 30, 2017)

www.exim.gov/sites/default/files/oig/reports/Final%20TPMD%20%20Report%20-%20Redacted.pdf

EXIM Bank’s Transportation Portfolio Management Division (TPMD) is responsible for the management of transactions originated by the Transportation Division. TPMD’s portfolio consists of commercial and business aircraft, helicopters, locomotives, and transportation spare parts. The total TPMD portfolio exposure amounted to \$39.3 billion, or 49.5 percent of the Bank’s total exposure at March 31, 2017. The objective of our evaluation was to ascertain the level of credit analysis, methodology employed, and timeliness of the Budget Cost Level (BCL) risk rating review process for post-operative transactions and to assess the Bank’s adherence to its policies and procedures, governmental guidelines and leading practices.

We found that TPMD’s risk rating process largely tracks leading practices. However, we identified some areas of improvement that need to be addressed to better align the risk rating process with those practices. For example, although EXIM Bank’s internal guidance provides quantitative metrics to assess key risks, it lacks benchmarks for individual risk factor ratings. We also found that the lack of precision with certain aspects of the Bank’s qualitative framework resulted in inconsistencies within the risk rating process. As a result, the TPMD risk rating process is susceptible to non-replicability and inaccurate obligor risk rating profiles. In addition, we confirmed that EXIM Bank continues to use different risk rating models for the Transportation Division (origination) and TPMD (monitoring) and has not established a timeline for implementing the prior recommendations contained in the 2015 Standard & Poor’s evaluation of the Bank’s risk rating models. Lastly, we found that EXIM Bank conducts aircraft

inspections on an ad-hoc or as needed basis and that findings from inspections were not always fully integrated into TPMD risk rating reports.

To better align TPMD’s current risk review process with leading practices, we made the following three recommendations:

- 1) For TPMD, similar to recommendation 3 in the OIG’s Report on the Asset Management Division’s Risk Rating Process:²
 - Introduce quantitative benchmarks for key risk metrics, including transportation sector specific ranges whenever possible, and re-evaluate the use of specific benchmark and benchmarks ranges on scheduled intervals. Provide explanations to justify data outliers when rating differs.
 - Adopt a consistent methodology for evaluating qualitative criteria. For example, Bank guidance should include a consistent methodology for rating consistency between BCL risk factor grades and risk ratings as well as clear risk rating criteria for individual risk factors.
- 2) Introduce standalone financial metrics to rate leasing companies in the TPMD portfolio given the growing importance of leasing companies in the sector. Along the same lines, evaluate the use of current metrics for non-passenger airline obligors such as cargo airlines and railroad companies.
- 3) Systematically introduce a risk-based approach to proactively identify inspection targets, set routine inspection timeframes, and fully incorporate results of inspections in risk rating reports

Management agreed with all three recommendations.

Report on EXIM Bank’s Local Cost Policy and Procedures

(OIG-EV-17-06, September 29, 2017)

www.exim.gov/sites/default/files/oig/reports/Final%20Report%20Local%20Cost%20092917--Redacted.pdf

EXIM Bank’s local cost policy provides financing for locally originated and/or manufactured goods and services that are required to efficiently build the end-product of a U.S. export. This support is in addition to the maximum support of 85 percent of the U.S. net contract price. As of July 31, 2017, EXIM Bank’s portfolio included 127 transactions with local cost components. The objective of our evaluation was to ascertain the adequacy of the Bank’s internal controls,

² See EXIM Bank OIG’s *Report on the Asset Management Division’s Risk Rating Process* (OIG-EV-16-02, dated September 23, 2016), available at www.exim.gov/sites/default/files/oig/reports/AMD%20Final%20Report%20Redacted_0.pdf.

documentation requirements, verification mechanism and compliance with policies and procedures related to local costs.

We found that EXIM Bank was generally compliant in its financing of local costs for the transactions reviewed, noting no exceptions in our testing of two medium-term transactions. However, our review of five long-term transactions identified a sufficient number of inconsistencies to indicate weaknesses in internal controls relating to local costs. Specifically, we determined that EXIM Bank's procedures and guidelines related to the local cost policy as implemented are not sufficiently clear as to the treatment of the Acquisition List (AL). Nor do they specify what constitutes an appropriate level of detail for describing local costs on the AL. For the five long-term transactions, we observed inconsistencies in the description of local costs, the identification of local cost providers, and the documenting of the Engineer's review and approval of the AL. These inconsistencies make it difficult to confirm that the local cost provider and related local goods and services presented in a disbursement request are those approved by the Bank.

Finally, we determined that EXIM Bank can strengthen other control activities for local cost to minimize reputational and operational risk such as the review and reconciliation of disbursement documents, management and maintenance of records, and treatment of subsidiary and affiliate companies to further mitigate opportunities for fraud and abuse.

To enhance EXIM Bank's current procedures and strengthen internal controls, we made the following six recommendations:

- 1) Issue detailed procedures and guidelines on its current process for reviewing and approving local cost goods and services, providers and amounts using the Acquisition List. This would include determining whether the current definition of what constitutes "sufficient detail" is adequate and clarifying the roles and responsibilities of Bank staff, timeline and requirements for administering the Acquisition List.
- 2) Provide enhanced guidance and training on local costs and related requirements to the Borrower and those responsible for the preparation and submission of reimbursement requests. This would include providing a clear delineation between U.S. and local cost goods and services.
- 3) For reimbursement requests, update the procedures and guidelines for local cost to require, at minimum, the submission of information that describes in sufficient detail the goods or services being invoiced for confirmation with the approved Acquisition List; therefore, creating a verifiable audit trail.
- 4) In the event that invoices are submitted in a foreign language, the Bank should establish a transparent and documented process by which Bank staff review and approve those invoices.

- 5) Update procedures and guidelines for the maintenance and retention of documentation related to all internal control aspects of local cost. This should include ensuring that all updates and changes to the Acquisition List, Character, Reputational and Transaction Integrity (CRTI) screening support (e.g., requests, notifications of clearance and hits), and Bank staff correspondence are retained in the appropriate Bank files.
- 6) Update procedures and guidelines for local cost to clarify how to treat vertically integrated companies and their affiliates with respect to the Acquisition List and CRTI screening when those subsidiaries or affiliate firms are providing local cost goods or services as a primary provider or sub-contractor. This would include updating the Acquisition List to distinguish between the specific entity providing local cost goods or services.

Management agreed with all six recommendations.

Ongoing Projects

Inspection of Kenya Airways/Tsavo Aircraft Financing LLC

As part of its oversight role in addressing the effectiveness and efficiency of EXIM Bank's programs and operations, OIE is conducting an inspection of the Kenya Airways/Tsavo Aircraft Financing LLC financings. OIG seeks to ascertain the adequacy of the Bank's due diligence, risk assessment, transaction structuring, and policy compliance. This report is expected to be issued in the semiannual period ending March 31, 2018.

Office of Investigations

The **Office of Investigations** (OI) conducts and coordinates investigations relating to alleged or suspected violations of Federal laws, rules, or regulations occurring in EXIM Bank programs and operations, which may result in criminal or civil prosecution and/or administrative sanctions. The subjects of OI investigations can be program participants, contractors, EXIM Bank management or employees. OI's investigations are supported by Investigative and Financial Analysts who conduct tactical and strategic intelligence analysis in support of OI's investigations.

Summary of Investigations

OI evaluates all reports of possible fraud or illegality affecting EXIM Bank programs and activities. Such reports are received from a variety of sources including EXIM Bank employees, Office of General Counsel (OGC), participants in Bank transactions, other government agencies, and the EXIM Bank OIG Hotline. Evaluations that identify reasonable indications of possible fraud or illegality result in an investigation. These investigations are summarized in the table below.

Activity	Investigations
Open as of March 31, 2017	36
Opened during period	5
Closed during period	13
Open as of September 30, 2017	28

Of the 28 current open investigations, the following table depicts the category of EXIM Bank program affected by the investigation based on the allegations received:

Program	Number of Investigations
Export Credit Insurance	15
Loan Guarantee	6
Working Capital Guarantee	4
Direct Loan	1
Letter of Interest	2

Summary of Investigative Results

OI obtained the following investigative actions during this reporting period:

Description	OIG	Joint Activities*	Total
Matters Referred for Prosecution Consideration	3	4	7
Matters referred for State and Local Consideration	0	0	0
Criminal Indictments, Informations, Complaints	0	2	2
Guilty Pleas Entered	0	0	0
Criminal Judgments	0	0	0
Civil Actions	1	0	1
Civil Recoveries	0	0	0
Prison Time (months)	0	0	0
Probation (months)	0	0	0
Court Ordered Fines, Restitution, and Forfeiture	\$0	\$0	\$0
Administrative Actions**	3	0	3
Administrative Employee Actions***	1	0	1
Administrative Cost Savings and Repayments	\$0	\$0	\$0
Suspensions and Debarments	8	0	8

* Joint investigations with other law enforcement agencies.

** Administrative actions are responses by EXIM Bank to stop transactions, cancel policies, or protect funds at risk based on investigative findings.

*** Administrative employee actions are responses by EXIM Bank to terminate or discipline EXIM Bank employees based on investigative findings.

The metrics used in this report were obtained from a system of records entitled, “EIB-35-Office of Inspector General Investigative Records” also known as “IGIS”. IGIS is a Structured Query Language (SQL) database used by OI to store its records related to criminal, civil, and administrative investigations. The database contains assignments, allegations, investigative activities, actions, dates, and identifying information about potential subjects and individuals related to these investigations. The system is able to generate metrics reports, which track judicial, administrative, and other investigative actions and activities. The database generates statistical reports on a variety of OI products including: Hotlines, Complaints, Subpoenas, and Investigations.

Investigations

Export Credit Insurance and Loan Guarantee Programs

EXIM Bank’s export credit insurance and guarantee programs have been susceptible to fraud schemes by foreign borrowers, U.S. based exporters, and other transaction participants. One fraudulent scheme to exploit these programs involves the falsification of shipping records to convince EXIM Bank that the described goods have been shipped when in fact they have not. Other fraud schemes involve submitting false financial statements of foreign borrowers in order

to induce EXIM Bank to provide its guarantee coverage for a loan for which they might otherwise be ineligible, and by submitting false documentation to the guaranteed lender and EXIM Bank regarding the shipment, nature, or quantity of the U.S. goods allegedly being exported.

Successful investigative efforts within the export credit insurance and guarantee programs during the reporting period include the following:

Lima, Ohio Man Charged with False Report to a Bank

Terry J. Ellis, of Lima, OH was charged via criminal information with making a “false statement to a Bank.” Ellis in 2010 willfully and falsely overstated assets in relation to a line of credit. Ellis told JPMorgan Chase Bank (Chase), the lender on an EXIM Bank Working Capital Guarantee, that assets were approximately \$2.3 million when in truth the assets were approximately \$1.9 million. Ellis defaulted on the line of credit and in August 2011, Chase filed a claim with EXIM Bank for approximately \$3.4 million. EXIM Bank paid approximately \$3 million on the claim and later recovered \$157,050 through the sale of T.J. Ellis’ assets.

El Paso, Texas Businessman and Others Charged with Civil False Claims Act Violations

Jose Luis Trejo of McAllen, TX along with others conspired to knowingly submit false or fraudulent claims to the U.S. government. Trejo signed an Export-Import Bank Form of Exporter’s Certificate stating his intent, through his company Best Medical Supply (BMS), to export \$4.9 million worth of medical equipment to Inmobiliaria Corpus Christi, S.A de C.V. (ICC), Durango, Mexico under an EXIM Bank medium-term guarantee. Trejo certified that BMS had made five shipments containing the entire \$4.9 million worth of equipment. The investigation revealed that at the time, BMS had made one shipment containing a fraction of the equipment that was stated in the agreement and BMS records. The false certifications submitted by Trejo and his co-conspirators resulted in a \$3.2 million claim against EXIM Bank. The government is seeking \$9,649,758.39 in damages and a civil penalty of between \$5,000 and \$11,000 for each false claim.

Export-Import Bank Employee and Program Integrity

OI conducts investigations involving allegations of criminal activity or serious misconduct by EXIM Bank employees that could threaten its reputation, the quality or validity of executive decisions, the security of personnel or business information entrusted to the Bank, or result in financial loss.

Employee integrity investigations, which substantiated misconduct include:

In the first half of FY 2017, we reported that we conducted an investigation into allegations of a conflict of interest between an EXIM Bank manager and a contractor working for the Bank. The investigation substantiated that while maintaining a personal relationship with a contractor employee, the manager continued to work regularly with this individual and participated in

matters affecting the financial interests of the contractor. We also reported that the matter had been referred to the Bank for administrative consideration and an agency decision was pending. During the second half of FY 2017, Bank management issued a Memorandum of Counseling and Recusal to the employee regarding this matter.

Other Investigative Results

To the extent permissible and within the confines and limitations of an investigation, OI Special Agents work collaboratively to share investigative intelligence with OGC, the Credit and Risk Management Division, and the Asset Management Division of EXIM Bank to help identify potential and suspected fraudulent activity within EXIM Bank transactions and to protect funds at risk.

During this reporting period, OI communicated with EXIM Bank management to enhance the monitoring of existing transactions and due diligence reviews of proposed transactions based on developed investigative leads. OI shared active law enforcement intelligence with OGC on several matters concerning suspected criminal activity by participants involved in active insurance policies or transactions under review. OI made 45 referrals of investigative information to OGC concerning potential fraud and funds at risk for enhanced due diligence by EXIM Bank.

These efforts are part of OI's continuing objective to expeditiously protect funds at risk concurrent in monitoring, oversight, and collection efforts involving transactions in which fraud is uncovered.

Hotline Activity

The EXIM Bank OIG maintains a hotline to receive reports of fraud, waste, and abuse in EXIM Bank programs and operations. Hotline reports are evaluated by our investigative team and, based on the available evidence, may result in the initiation of an investigation, audit, referral to other law enforcement authorities having jurisdiction, or referral to management for administrative action.

The OIG received eight hotline reports during the reporting period. Two were referred for investigations, and six were resolved and closed by the hotline.

Hotline reports can be made by any of the following methods:

- Phone at 1-888-OIG-EXIM (1-888-644-3946);
- E-mail to IGHotline@exim.gov, or;
- In person or mail/delivery service to EXIM Bank OIG Hotline, Office of Inspector General, 811 Vermont Avenue, NW, Room 1052-1, Washington DC 20571.

The OIG will not disclose the identity of a person making a report through the hotline without their consent unless the Inspector General determines such disclosure is unavoidable during the course of an investigation.

Office of Inspector General Management Initiatives

Suspension and Debarment Initiative

OIG continues to work with EXIM Bank management to implement a more robust Suspension and Debarment program at the Bank, which would serve as a critical tool to prevent waste and fraud and protect the interests of the U.S. This initiative strives for more dialogue between OIG and EXIM Bank management officials to determine potential obstacles to taking suspension and debarment actions, and plans to overcome those obstacles.

During this reporting period, 24 matters were referred for consideration to EXIM Bank suspension and debarment officials. Of the 24 matters, 14 resulted in suspensions or debarments, and the agency declined 10.

Fraud Awareness Training and Outreach

As part of the OIG's mission to prevent and detect fraudulent activity, efforts have been made to meet with and educate stakeholders about the various risks and fraud scenarios most commonly seen in trade finance, export credit fraud, and money laundering cases. The OIG participates in the Bank's mandatory new employee orientation program to educate new EXIM Bank federal employees on their responsibilities and how to spot indicators of fraud.

During this reporting period, OI representatives conducted a briefing on common fraud scenarios and money laundering patterns with representatives from BAC Florida Bank, Brickell Bank and Plus International Bank. In addition, briefings were conducted with EXIM Bank's Trade Finance and Insurance Division and Office of Innovation and Performance.

International and Domestic Collaboration

The OIG participates in meetings with the Berne Union, an international not-for-profit trade organization representing export credit and investment insurance agencies. These meetings allow the OIG to discuss areas of interest in the export credit field and to benchmark EXIM Bank's practices with other export credit agencies (ECAs). Since the majority of OIG investigations and inspections are focused on international transactions, we continually seek to partner with international organizations to collaborate and exchange ideas and information on how to work together in identifying, preventing, and investigating fraud. OIE participated in several discussions with representatives from other ECAs and multilateral institutions to discuss and promote risk management and integrity due diligence best practices.

International Association of Credit Portfolio Managers

The OIG participates in meetings with the International Association of Credit Portfolio Managers, an international association established in 2001 to further the practice of credit exposure management. These meetings allow the OIG to discuss areas of interest in the field of credit portfolio management and to benchmark EXIM Bank's practices with other financial institutions including ECAs, multilateral development banks and global financial institutions.

Council of Inspectors General on Integrity and Efficiency

The OIG participates in the activities of the Council of Inspectors General on Integrity and Efficiency (CIGIE), including the Legislation Committee and the CIGIE Inspection and Evaluation Committee, as well as the Council of Counsels to the Inspectors General. During this reporting period, OA representatives participated in the development of guidance for implementing the OIG's Computer Matching Act exemption for CIGIE. Furthermore, an OA representative chaired a working group tasked with developing cross-cutting project proposals for CIGIE. In May 2017, four proposals were presented to the Inspector Generals and all four proposals were accepted as future CIGIE cross-cutting projects. OIG also participated in the CIGIE Ombudsman group for whistleblower protection issues and in the testing phase of [Oversight.gov](https://www.oversight.gov).³

Review of Legislation and Regulations

Pursuant to section 4(a)(2) of the Inspector General Act of 1978, as amended, the OIG reviews proposed and existing legislation and regulations related to EXIM Bank's programs and operations.

Government Accountability Office

The Inspector General (IG) Act states that each IG shall give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and ensuring effective coordination and cooperation. During the reporting period, the OIG shared information with the Government Accountability Office (GAO) and met with GAO officials to discuss ongoing and planned work. GAO issued one report during the reporting period on the status of end-use monitoring of dual-use exports as of August 2017.

Status of End-Use Monitoring of Dual-Use Exports as of August 2017

(GAO-17-730R; August 29, 2017)

www.gao.gov/products/GAO-17-730R

GAO is required to report annually on the end uses of dual-use exports financed by EXIM Bank during the second preceding fiscal year. This report reviewed EXIM Bank's monitoring of dual-use exports that it continued to finance in fiscal year 2015. Specifically, GAO examined (1) the status of the Bank's 2015 and 2016 end-use determinations as of August 2017 and (2) identified any new dual-use exports that the Bank financed in fiscal year 2016. GAO found that EXIM Bank received the end-use monitoring documentation for 2016 as required by the Bank's credit agreements for three dual-use export transactions approved for financing in fiscal year 2012. Although EXIM Bank completed its 2015 and 2016 dual-use compliance determinations for two of the transactions, GAO determined the Bank did so sometimes before receiving the required

³ [Oversight.gov](https://www.oversight.gov) is a publicly accessible site created by CIGIE to consolidate in one place all public reports issued by Federal IGs.

end-use documentation, or after required deadlines. EXIM Bank did not finance any new exports under its dual-use authority in fiscal year 2016.

APPENDIX A

Open Recommendations from Prior Reporting Periods

This table shows that 39 recommendations from eight reports issued prior to March 31, 2017 remain open at the end of this reporting period. Twenty-six open recommendations are from reports issued in FY 2017. The remaining 13 open recommendations are from reports issued in FY 2016. Reports from prior periods are no longer listed when all recommendations have been closed.

		Recommendations				Latest Target Closure Date
Report No./ Date	Report Title	Total	Open	Closed	Unresolved	
Last Period (10/1/16 – 3/31/17)						
Audits						
OIG-AR-17-03 6 Mar 2017	Fiscal Year 2016 Financial Statements Audit – Management Letter	8	6	2	0	3/30/2018
OIG-AR-17-04 15 Mar 2017	Independent Audit of Export-Import Bank’s Information Security Program for Fiscal Year 2016	9	9	0	0	12/31/2017
Inspections and Evaluations						
OIG-EV-17-01 2 Dec 2016	Evaluation of Risk Management Procedures and Chief Risk Officer Responsibilities	8	8	0	0	3/30/2018
OIG-EV-17-03 30 Mar 2017	Report on EXIM Bank’s Credit Guarantee Facility Program	5	3	1	1*	3/30/2018
Prior Periods (prior to 10/1/16)						
Audits						
OIG-AR-16-05 30 Mar 2016	Audit of EXIM Bank’s Contracting Processes	7	1	6	0	12/31/2017
OIG-AR-16-07 28 Sept 2016	Audit of the Examinations of Delegated Authority Lenders	12	5	7	0	3/30/2018
Inspections and Evaluations						
OIG-INS-16-01 22 Dec 2015	Report on Jabiru Satellite Ltd.	4	1	3	0	11/30/2017
OIG-EV-16-01 28 Jul 2016	Follow-Up Report on Portfolio Risk and Loss Allocation Policies	8	6	2	0	3/30/2018
Totals		61	39	21	1	

* One unresolved recommendation from this report included \$5.1 million of questioned cost.

APPENDIX B

Audit and Evaluation Reports Issued from April 1, 2017 – September 30, 2017

	Report No./Date	Report Title	Management Decisions Reached on Recommendation	Total Questioned Cost	Unsupported Cost	Funds for Better Use	Disallowed Cost
1	OIG-EV-17-04 11 May 2017	Report on EXIM Bank's Compliance with the Improper Payments Laws for Fiscal Year 2016 Reporting	0/0	0	0	0	0
2	OIG-EV-17-05 30 Aug 2017	Report on Transportation Portfolio Management Division's Risk Rating Process	3/3	0	0	0	0
3	29 Sept 2017	Risk Assessment of Export-Import Bank's Purchase Card Program	0/0	0	0	0	0
4	OIG-AR-17-05 29 Sept 2017	Audit of the Export-Import Bank's Disbursement Process	9/9	0	0	0	0
5	OIG-EV-17-06 29 Sept 2017	Report on EXIM Bank's Local Cost Policy and Procedures	6/6	0	0	0	0
Totals				\$0	\$0	\$0	\$0

APPENDIX C

Significant Recommendations from Previous Semiannual Reports on Which Corrective Action Has Not Been Completed

We have identified four significant recommendations from previous semiannual reports on which corrective action has not been completed.

OIG-AR-16-05, Audit of EXIM Bank's Contracting Processes, March 30, 2016

Recommendation 1: Develop a comprehensive set of written policies and procedures for the Export Import Bank's acquisition services to ensure contracts are administered and monitored in accordance with the FAR.

Expected implementation date: December 31, 2017

OIG-EV-17-01, Evaluation of Risk Management Procedures and Chief Risk Officer Responsibilities, December 2, 2016

Recommendation 1: To clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency, EXIM Bank should formally document the risk management roles, responsibilities and authority of its line of defense functions; clarify responsibilities and interaction between different senior management committees and divisions; identify the individuals and functions to be responsible for each; and address any gaps in those responsibilities.

Expected implementation date: March 30, 2018

Recommendation 6: The Bank should continue to improve its integrated risk management program by designing a comprehensive Risk Appetite Framework that provides an overarching process for defining risk appetite and establishing risk tolerance thresholds for its key risks.

Expected implementation date: March 30, 2018

Recommendation 7: The Bank should update its current Risk Appetite Statement and establish aggregate thresholds for each of its key risks in accordance with federal guidance.

Expected implementation date: March 30, 2018

APPENDIX D

Open Recommendations

	Recommendation	Status	Expected Implementation Date	Management Agree or Disagree	Questioned Cost	Funds for Better Use
Audit of the Export Import Bank's Contracting Processes (OIG AR 16 05, March 30, 2016)						
1	Develop a comprehensive set of written policies and procedures for the Export Import Bank's acquisition services to ensure contracts are administered and monitored in accordance with the FAR.	Open	12/31/2017	Agree	0	0
Audit of Export Import Bank's Examinations of Delegated Authority Lenders Participating in the Working Capital Guarantee Program (OIG AR 16 07, September 28, 2016)						
3	Develop mechanisms to track required corrective actions to address collateral examination findings and ensure the corrective actions are taken by both borrowers and Delegated Authority Lenders.	Open	3/30/2018	Agree	0	0
4	Ensure resources are properly allocated in the BCD to accomplish the responsibilities of the division including the performance of quality and thorough DAL examinations.	Open	3/30/2018	Agree	0	0
5	Establish a separate DAL Examination group in the BCD comprised of individuals who are solely examiners and are independent of the lender relation role of the BCD.	Open	3/30/2018	Agree	0	0
7	Require a more in-depth review and documentation of lenders collateral examinations during DAL examinations.	Open	3/30/2018	Agree	0	0
12	Update its Master Guarantee Agreement, dated December 31, 2005 to ensure the policies are up to date and in line with current best practices and to address internal control deficiencies.	Open	3/30/2018	Agree	0	0
Fiscal Year 2016 Financial Statements Audit – Management Letter (OIG AR 17 03, March 6, 2017)						
1	Establish segregation of duties in the access privileges between developers and migrators of ETL and Dashboard report changes, or establish a documented detective control, in which the population of ERS tickets is cross-referenced to a source system outside of the system (e.g., the ERS Database for ETL changes and the Catalog Manager for Dashboard reports) to confirm that there have been no changes migrated into the production environment without a corresponding approved ticket.	Open	3/30/2018	Agree	0	0
3	Generate a list of separated full time employees (FTEs) and contractors on a periodic/more frequent basis and send to system reviewers, such that the reviewers compare the list to the active users of their respective applications/layers to confirm	Open	3/30/2018	Agree	0	0

	Recommendation	Status	Expected Implementation Date	Management Agree or Disagree	Questioned Cost	Funds for Better Use
	that no separated users maintain active accounts.					
4	Enhance the separation process for both FTEs and contractors by re-assessing the email notification component of the control such that appropriate system administrators and managers are included on the “Employee Separations” and “Contractor Separations” distribution lists and to require an email response back from the system administrator in a timely manner confirming receipt of the notification email and/or an email response letting the HR/Security office know that the user’s access has been removed.	Open	3/30/2018	Agree	0	0
5	Updated policies and scripts used for implementing new databases and servers should be made readily available to all System Engineers and IT personnel responsible for maintaining and installing new appliances/servers so that the password settings for newly implemented databases/servers are in compliance.	Open	3/30/2018	Agree	0	0
6	Either amend the current Access Control Policy to include specific password requirements (e.g., password length, complexity, age, history, etc.) for each application and infrastructure layer or create a separate Access/Password Policy for these layers so that requirements (and any approved exceptions to requirements) are documented and can be referenced and applied.	Open	3/30/2018	Agree	0	0
8	Meeting minutes are documented and stored for the periodic Security Meetings to document the monitoring and compliance of the security posture and vulnerabilities in a timely manner.	Open	3/30/2018	Agree	0	0
Independent Audit of Export Import Bank’s Information Security Program Effectiveness for Fiscal Year 2016 FISMA (OIG AR 17 04, March 15, 2017)						
1	We recommend that the EXIM Bank CIO (a) Perform an assessment of EXIM Bank’s current information security program to identify the cost-effective security measures required to achieve a fully mature program, and (b) Implement appropriate processes and procedures to improve the information security program and align it with Level 4: Managed and Measurable IG metrics.	Open	12/31/2017	Agree	0	0
2	We recommend that the EXIM Bank CIO review and update all agreements with third-party service providers to ensure that the agreements specify how information security performance is measured, reported, and monitored.	Open	12/31/2017	Agree	0	0

	Recommendation	Status	Expected Implementation Date	Management Agree or Disagree	Questioned Cost	Funds for Better Use
3	We recommend that the EXIM Bank CIO (a) Continue with their remediation efforts, and (b) implement further procedures for the operating platforms.	Open	12/31/2017	Agree	0	0
4	We recommend that the EXIM Bank CIO (a) Document and implement baseline configuration settings for all information technology products deployed within the Bank, and (b) Document justifications or compensating controls for any deviations from established baseline configuration settings for each of the information technology products deployed within the Bank.	Open	12/31/2017	Agree	0	0
5	We recommend that the EXIM Bank CIO (a) Update their on-boarding process to separate the acknowledgement of the RoB from the security awareness training and require users to acknowledge and sign the RoB prior to obtaining network access, or improve their existing security training procedures to ensure that all personnel receive security training and sign the Bank's RoB agreement prior to obtaining access to the Bank's data; and (b) Implement procedures to formally track compliance with the updated process.	Open	12/31/2017	Agree	0	0
6	We recommend that the EXIM Bank CIO (a) Identify and document a comprehensive list of all roles with information security responsibilities, and (b) Document and implement procedures to ensure that all of the identified roles receive annual role-based security training.	Open	12/31/2017	Agree	0	0
7	We recommend that the EXIM Bank CIO implement a review and update of information with frequency that is compliant with EXIM Bank's documented policies and procedures.	Open	12/31/2017	Agree	0	0
8	We recommend that the EXIM Bank CIO document and implement procedures to periodically review and disable APS accounts that have not been used for more than 90 days.	Open	12/31/2017	Agree	0	0
9	We recommend that the EXIM Bank CIO (a) Remove all instances of software that have not been properly licensed or authorized by the vendor, or make arrangements to purchase the current excess amount; and (b) Document and implement procedures to periodically review and reconcile the number of software licenses used for all software products to ensure that the Bank is in compliance with its vendor agreements.	Open	12/31/2017	Agree	0	0

	Recommendation	Status	Expected Implementation Date	Management Agree or Disagree	Questioned Cost	Funds for Better Use
Audit of the Export Import Bank's Disbursement Processes (OIG AR 17 05, September 29, 2017)						
1	Develop a comprehensive written policy and procedures for the disbursement processes. The policy and procedures should address reoccurring variations in disbursement practices and require unique circumstances necessitating a deviation from a policy or procedure to be documented and justified within the disbursement files.	Open	9/29/2018	Agree	0	0
2	Within the disbursement policy and procedures, document the process for coordination between Credit Administration, other divisions within the Bank (such as E&E and Transportation), and other sources including in what circumstances the coordination is required and how the coordination should be documented within the disbursement files.	Open	9/29/2018	Agree	0	0
3	Within the disbursement policy and procedures, require evidence of actual payment such as a photocopy of a commercial bank's advice of payment to the U.S. exporter or photocopy of both sides of a cancelled check made payable to the U.S. exporter. If confirmation of payment via letter or "paid stamp" continues to be allowed, require documentation of the mitigating controls put in place to ensure payment is valid.	Open	9/29/2018	Agree	0	0
4	Within the disbursement policy and procedures, document any exceptions to obtaining acquisitions lists (such as for aircraft transactions) and the mitigating internal controls.	Open	9/29/2018	Agree	0	0
5	Develop a risk-based approach for reviews performed by CRC to ensure adequate coverage of all areas relying on third-party review and self-certification, such as letter of credit and medium-term guarantee disbursements. The CRC reviews should be used to determine if the front-end internal controls prior to EXIM Bank disbursement approval require modification.	Open	9/29/2018	Agree	0	0
6	Reassess and document the rationale for providing 100 percent unconditional guarantees under the medium-term guarantee program given the reliance on the guaranteed lenders to review disbursement documentation.	Open	9/29/2018	Agree	0	0
7	Formalize training for employees specific to the disbursement processes.	Open	9/29/2018	Agree	0	0
8	Enhance and monitor performance measures and indicators for the disbursement processes.	Open	9/29/2018	Agree	0	0

	Recommendation	Status	Expected Implementation Date	Management Agree or Disagree	Questioned Cost	Funds for Better Use
9	Implement a process for recording and validating disbursement data between EOL, FMS-NG, and the GL on at least a quarterly basis so that third-party requests for validated data can be completed in a timely manner and staff can effectively track program performance.	Open	9/29/2018	Agree	0	0
Report on Jabiru Satellite Ltd. (OIG INS 16 01, December 22, 2015)						
2B	Ex-Im Bank should revise its policies to require a follow up analysis of the transaction risk rating and participant creditworthiness prior to financial closing when circumstances indicate a possible material change since the Board approval of the transaction such as: (i) indications of deterioration of the financial condition of key participants; and (ii) the obligor(s) failure to meet certain conditions precedent.	Open	11/30/2017	Agree	0	0
Follow Up Report on Portfolio Risk and Loss Reserve Allocation Policies (OIG EV 16 01, July 28, 2016)						
1	Establish policies and attendant criteria to determine prudent soft limits on exposure concentrations and procedures to manage those exposures once identified, including options for reducing concentrated exposures, mitigating the risks of concentration exposures, or consideration of concentration risks in the transaction approval process.	Open	3/30/2018	Agree	0	0
3	Engage an independent expert to complete the second half of the Credit Loss Factors (CLF) validation exercise in FY 2016 and to address the recommendations put forth in the final report. To ensure adequate independence of the review process, oversight of the project should be placed with individuals who are not responsible for development or use of the CLF model.	Open	3/30/2018	Agree	0	0
4	Engage an independent expert to evaluate the remaining models as part of phase three testing of the BCL review, beginning with project finance, and to address the recommendations put forth in the final report. To ensure adequate independence of the review process, oversight of the project should be placed with individuals who are not responsible for development or use of the risk rating models.	Open	3/30/2018	Agree	0	0
5	OIG recommends that Ex-Im Bank further develop the scope (e.g., sector and one obligor) and frequency of stress testing protocols to analyze potential vulnerabilities due to the Bank's portfolio concentrations and incorporate the results of the stress testing into key risk management policies including the Bank's risk appetite statement, risk tolerance	Open	3/30/2018	Agree	0	0

	Recommendation	Status	Expected Implementation Date	Management Agree or Disagree	Questioned Cost	Funds for Better Use
	levels, and the use of risk sharing as provided for in the 2015 Reauthorization Act.					
6	In addition to the two percent default cap, Bank staff should establish additional criteria for the setting of prudent soft limits on exposure concentrations, including one obligor related concentrations. This may include percentage thresholds of credit loss reserves and earnings, current industry conditions, current exposure, nominal limits on the risk rating of the borrower and program specific objectives.	Open	3/30/2018	Agree	0	0
7	Analyze the potential impact of covariance or correlation of risk factors, industries and regions on the probability distribution of losses of the credit portfolio. The outcome of this analysis would enhance the model's predictive capability and inform the process of setting prudent soft limits.	Open	3/30/2018	Agree	0	0
Evaluation of Risk Management Procedures and Chief Risk Officer Responsibilities (OIG EV 17 01, December 2, 2016)						
1	To clarify the authority and responsibility of the CRO with respect to the current allocation of risk management responsibilities across the agency, EXIM Bank should formally document the risk management roles, responsibilities and authority of its line of defense functions; clarify responsibilities and interaction between different senior management committees and divisions; identify the individuals and functions to be responsible for each; and address any gaps in those responsibilities.	Open	3/30/2018	Agree	0	0
2	EXIM Bank should review the Enterprise Risk Committee approval process to specify the authority and responsibility of the CRO over risk policies, procedures, and reports.	Open	3/30/2018	Agree	0	0
3	EXIM Bank should review the alignment of the Bank's risk management activities consistent with the "three lines of defense" framework and ensure that responsibility for the first line of defense and second line of defense are separated.	Open	3/30/2018	Agree	0	0
4	EXIM Bank should assess whether the CRO has sufficient staff, funding, and other resources to carry out the responsibilities assigned in the Act, and reassign resources or seek additional funding for the CRO as necessary.	Open	3/30/2018	Agree	0	0
5	EXIM Bank should enhance its risk policy framework to further document the noncredit risks that are identified in the Risk Appetite Statement.	Open	3/30/2018	Agree	0	0
6	The Bank should continue to improve its integrated risk management program by designing a comprehensive Risk Appetite	Open	3/30/2018	Agree	0	0

	Recommendation	Status	Expected Implementation Date	Management Agree or Disagree	Questioned Cost	Funds for Better Use
	Framework that provides an overarching process for defining risk appetite and establishing risk tolerance thresholds for its key risks.					
7	The Bank should update its current Risk Appetite Statement and establish aggregate thresholds for each of its key risks in accordance with federal guidance.	Open	3/30/2018	Agree	0	0
8	To track the progress in developing the RAF, the Bank should develop a maturity model approach to assess each component of the RAF separately and in the aggregate, as recommended in the ERM Playbook.	Open	3/30/2018	Agree	0	0
Report on EXIM Bank's Credit Guarantee Facility Program (OIG EV 17 03, March 30, 2017)						
1	Review and update its policies for conducting credit file reviews to ensure completeness and integrity of the credit files and that evidence of the review is documented.	Open	10/31/2017	Agree	0	0
3	Require the Guaranteed Lenders of the CFE CGF and the OCP CGF to address the \$3.6 million in goods and the \$1.5 million in progress payments for services that were not eligible for financing, respectively, and were guaranteed by the Bank (e.g., identifying and providing eligible invoices as a substitute).	Unresolved	3/30/2018	Disagree	\$5,129,244.53	0
4	With respect to amendments to the terms and conditions of transactions previously approved by the Board: (i) enhance policies and procedures for CGFs to ensure the adequacy and consistency of the Bank's due diligence (e.g., Iran sanctions due diligence) in consideration of those amendments; and (ii) in accordance with the Bank's Individual Delegated Authority policy, develop an internal process to assess the level of materiality of proposed amendments and to discern the need to revert back to the Board for approval. Such a process should involve a deliberative body such as the Transaction Review Committee.	Open	3/30/2018	Agree	0	0
5	Review and update the reachback policy for the CGF program to be consistent with actual practice and reduce the need for waivers. In reviewing and updating the reachback policy, the Bank should analyze the case-by-case determination of a reachback relative to the average policy date (i.e., operative date); consider establishing limits on the utilization of the facility for reachback transactions; set requirements for communicating analysis of reachback issues to decisionmakers including the Board; and establish procedures for consideration of waivers to	Open	3/30/2018	Agree	0	0

	Recommendation	Status	Expected Implementation Date	Management Agree or Disagree	Questioned Cost	Funds for Better Use
	the policy. This would include documenting the supporting evidence in the credit file.					
Report on Transportation Portfolio Management Division's Risk Rating Process (OIG EV 17 05, August 30, 2017)						
	For TPMD, similar to recommendation 3 in the OIG's Report on the Asset Management Division's Risk Rating Process: (a) Introduce quantitative benchmarks for key risk metrics, including transportation sector specific ranges whenever possible, and re-evaluate the use of specific benchmark and benchmarks ranges on scheduled intervals.					
1	Provide explanations to justify data outliers when rating differs; and (b) Adopt a consistent methodology for evaluating qualitative criteria. For example, Bank guidance should include a consistent methodology for rating consistency between BCL risk factor grades and risk ratings as well as clear risk rating criteria for individual risk factors.	Open	6/30/2018	Agree	0	0
2	Systematically introduce standalone financial metrics to rate leasing companies in the TPMD portfolio given the growing importance of leasing companies in the sector. Along the same lines, evaluate use of current metrics for non-passenger airline obligors such as cargo airlines and railroad companies.	Open	6/30/2018	Agree	0	0
3	Introduce a risk-based approach to proactively identify inspection targets, set routine inspection timeframes, and fully incorporate results of inspections in risk rating reports.	Open	3/30/2018	Agree	0	0
Report on EXIM Bank's Local Cost Policy and Procedures (OIG EV 17 06, September 29, 2017)						
1	Issue detailed procedures and guidelines on its current process for reviewing and approving local cost goods and services, providers and amounts using the Acquisition List. This would include determining whether the current definition of what constitutes "sufficient detail" is adequate and clarifying the roles and responsibilities of Bank staff, timeline and requirements for administering the Acquisition List.	Open	1/31/2018	Agree	0	0
2	Provide enhanced guidance and training on local costs and related requirements to the Borrower and those responsible for the preparation and submission of reimbursement requests. This would include providing a clear delineation between U.S. and local cost goods and services.	Open	4/30/2018	Agree	0	0
3	For reimbursement requests, update the procedures and guidelines for local cost to require, at minimum, the submission of information that describes in sufficient	Open	7/31/2018	Agree	0	0

	Recommendation	Status	Expected Implementation Date	Management Agree or Disagree	Questioned Cost	Funds for Better Use
	detail the goods or services being invoiced for confirmation with the approved Acquisition List; therefore, creating a verifiable audit trail.					
4	In the event that invoices are submitted in a foreign language, the Bank should establish a transparent and documented process by which Bank staff review and approve those invoices.	Open	1/31/2018	Agree	0	0
5	Update procedures and guidelines for the maintenance and retention of documentation related to all internal control aspects of local cost. This should include ensuring that all updates and changes to the Acquisition List, CRTI screening support (e.g., requests, notifications of clearance and hits), and Bank staff correspondence are retained in the appropriate Bank files.	Open	1/31/2018	Agree	0	0
6	Update procedures and guidelines for local cost to clarify how to treat vertically integrated companies and their affiliates with respect to the Acquisition List and CRTI screening when those subsidiaries or affiliate firms are providing local cost goods or services as a primary provider or sub-contractor. This would include updating the Acquisition List to distinguish between the specific entity providing local cost goods or services.	Open	4/30/2018	Agree	0	0
Totals					\$5,129,244.53	\$0

APPENDIX E

Peer Review Reporting

Office of Audits

OA completed a peer review of the audit function of the Government Publishing Office (GPO) OIG on June 2, 2017, and issued a rating of pass with deficiency. The report is posted on GPO OIG's website at www.gpo.gov/pdfs/ig/GPO-OIG-System-Review-Report.pdf.

On September 8, 2017, the National Archives and Records Administration (NARA) OIG issued its final report on the system of quality control for the EXIM Bank OIG's audit function. The NARA OIG issued a rating of pass and found that OA was in full compliance with the standards required by CIGIE. A copy of the NARA OIG report can be found on the EXIM Bank OIG website at www.exim.gov/sites/default/files/oig/reports/EXIMOIGOA%20QAR%20090817.pdf.

Office of Investigations

On September 11, 2017, the Board of Governors of the Federal Reserve System (FRB) OIG issued its final report on the system of quality control for the EXIM Bank OIG's investigation function. The FRB OIG issued a rating of compliant with the standards required by CIGIE and applicable Attorney General's guidelines. A copy of the FRB OIG report can be found on the EXIM Bank OIG website at www.exim.gov/sites/default/files/oig/reports/EXIMOIGOI%20QAR%20091117.pdf.

APPENDIX F

Inspector General Act Reporting Requirements

Inspector General Act Citation	Requirement Definition	Page
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	5-7
Section 5(a)(2)	Recommendations for Corrective Actions	14-17 20-23
Section 5(a)(3)	Prior Significant Audit Recommendations Yet to Be Implemented	39
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	27
Sections 5(a)(5) and 6(c)(2)	Summary of Refusals to Provide Information	None
Section 5(a)(6)	Audit, Inspection and Evaluation Products Issued Including Total Dollar Values of Questioned Costs, Unsupported Costs, and Recommendations That Funds Be Put to Better Use	37
Section 5(a)(7)	Summary of Particularly Significant Reports	5-7
Section 5(a)(8)	Total Number of Reports and Total Dollar Value for Audits, Inspections and Evaluations with Questioned and Unsupported Costs	35 & 37 41-49
Section 5(a)(9)	Total Number of Reports and Total Dollar Value for Audits, Inspections and Evaluations with Recommendations That Funds Be Put to Better Use	None
Section 5(a)(10)(A) – (C)	Summary of Prior Audit, Inspection and Evaluation Products for Which No Management Decision Has Been Made, No Comment was Returned Within 60 Days, Recommendation Exists Regarding Aggregate Cost Savings	None
Section 5(a)(11)	Description and Explanation of Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions with Which the Inspector General Disagreed	None
Section 5(a)(13)	Reporting in Accordance with Section 804(b) of the Federal Financial Management Improvement Act of 1996 Remediation Plan	None
Section 5(a)(14)	Results of Peer Review Conducted by Another IG; or Date of Last Peer Review If No Peer Review Conducted During Reporting Period	51
Section 5(a)(15)	List of Outstanding Recommendations from Peer Review Conducted by Another IG That Have Not Been Fully Implemented	None
Section 5(a)(16)	List of Peer Reviews of Another IG During the Reporting Period Including Outstanding Recommendations from Previous Peer Review That Remain Outstanding or Have Not Been Fully Implemented	51

Inspector General Act Citation	Requirement Definition	Page
Section 5(a)(17)(A) – (D)	Total Investigative Report, Referred to the DOJ, Number of Persons Referred to State and Local Authorities, Total Indictments, etc. That Resulted from Prior Referral to Prosecuting Authorities	27-30
Section 5(a)(18)	Metrics Used for Developing Data for Statistical Tables	27
Section 5(a)(19)(A) – (B)	Senior Government Employee Substantiated Misconduct, Facts, Disposition	28-29
Section 5(a)(20)	Whistleblower Retaliation	None
Section 5(a)(21)(A) – (B)	Interfered with OIG Independence Through Withholding Budget or Causing Delay	15-17
Section 5(a)(22)(A) – (B)	Report Closed but Not Disclosed to the Public	None

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The Inspector General Act of 1978 states that the Inspector General (IG) may receive and investigate complaints or information concerning the possible existence of an activity constituting a violation of law, rules, or regulations, or mismanagement, gross waste of funds, abuse of authority or a substantial and specific danger to the public health and safety. Whether reporting allegations via telephone, mail, or in person, the OIG will not disclose the identity of persons making a report without their consent unless the IG determines such disclosure is unavoidable during the course of the investigation. You may submit your complaint or information by these methods:

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